

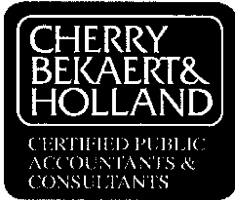
**NORFOLK COMMUNITY SERVICES BOARD
(A COMPONENT UNIT OF THE
CITY OF NORFOLK, VIRGINIA)**

FINANCIAL REPORT

YEAR ENDED JUNE 30, 2004

CONTENTS

INDEPENDENT AUDITORS' REPORT	1-2
MANAGEMENT'S DISCUSSION AND ANALYSIS	3-10
FINANCIAL STATEMENTS	
Statement of Net Assets	11
Statement of Revenues, Expenses and Changes in Net Assets	12
Statement of Cash Flows	13-14
Notes to Financial Statements	15-22
SUPPLEMENTAL INFORMATION	
Schedule of Expenditures of Federal Awards	23
Notes to Schedule of Expenditures of Federal Awards	24
Reconciliation of Federal Revenues to the Fourth Quarter State Report	25
OTHER INFORMATION	
Reconciliation of Revenues and Expenses per Audit to the Fourth Quarter State Report (UNAUDITED)	26
Schedule of Insurance (UNAUDITED)	27
Schedule of Lease Obligations (UNAUDITED)	28
Listing of Board Members and Management Team	29-30
Organizational Chart	31
COMPLIANCE REPORT	
Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	32-33
Report on Compliance with Requirements Applicable to Each Major Program and Internal Control Over Compliance in Accordance with OMB Circular A-133	34-35
Schedule of Findings And Questioned Costs	36



Independent Auditors' Report

To the Board of Trustees
Norfolk Community Services Board
Norfolk, Virginia

We have audited the accompanying basic financial statements of the Norfolk Community Services Board (the CSB), a component unit of the City of Norfolk, Virginia, as of and for the year ended June 30, 2004, as listed in the table of contents. These financial statements are the responsibility of the CSB's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the CSB, as of June 30, 2004, and the respective changes in its financial position and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 10, 2004 on our consideration of the CSB's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

The Management's Discussion and Analysis on pages 3-10, is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the financial statements of the CSB, taken as a whole. The accompanying information listed as supplemental information in the table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements. Furthermore, the accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and the Virginia Department of Mental Health, Mental Retardation and Substance Abuse Services, and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

We did not audit the introductory section or the schedules listed as other information in the table of contents and, accordingly, we express no opinion on such data.

Cherry, Bekant & Holland, L.L.P.

Virginia Beach, Virginia
September 10, 2004

**MANAGEMENT'S DISCUSSION AND ANALYSIS
NORFOLK COMMUNITY SERVICES BOARD**

For Fiscal Year Ended June 30, 2004



The following discussion and analysis of the Norfolk Community Services Board's (Board's) financial performance provides an overview of the Board's financial activities for the fiscal year ended June 30, 2004. Please read it in conjunction with the transmittal letter at the front of this report and the Board's financial statements, which follow this section.

FINANCIAL HIGHLIGHTS FOR FY 2004

The Board's financial statements are reported on the full accrual basis as required by GASB 34. On this basis, the Board reported operating expenses of \$17,067,204 and operating and non-operating revenue of \$18,035,833. This produced a net gain of \$968,629 for the year.

The FY 2004 Performance Contract issued by the Virginia Department of Mental Health, Mental Retardation, and Substance Abuse Services (State) to the Board requires the reporting of financial information on a cash or budgetary basis and requires certain unspent funds from the prior year to be reported as income in the current year. On this basis as reported to the State, the Board had operating revenue in excess of expenditures by \$988,941. A reconciliation between the Board's financial statements and the final State Performance Contract Report is included in the Supplemental Information section of the Annual Financial Statements.

The Board's net assets totaled \$4.96 million of which \$3.93 million is available to spend at the discretion of the Board. The board carries no debt. All operations are supported through current financial resources.

BASIC FINANCIAL STATEMENTS

The basic financial statements report information about the Board using accounting methods similar to those used by private-sector companies. One of the most important questions asked about the Board's finances is, "Is the Board better or worse off as a result of the year's activities?" The Statement of Net Assets and the Statement of Revenue, Expenses, and Changes in Net Assets, which are included in the basic financial statements, report information about the Board as a whole and about its activities in a way that helps answer this question. These statements include all assets and liabilities using the accrual basis of accounting, which is similar to the accounting used by most private-sector companies. All of the current year's true revenues and expenses are taken into account regardless of when cash is received or paid.

These two statements report the Board's net assets and changes in them. One can think of the Board's net assets – the difference between assets and liabilities – as one way to measure the Board's financial health or financial position. The Statement of Net Assets serves the additional purpose of describing the balances left at year-end that are available for use and any restrictions that apply to those balances. Over time, increases or decreases in the Board's net assets are one indicator of whether its financial health is improving or deteriorating. Other non-financial factors will need to be considered however, such as changing client needs and competition for services, to assess the overall financial health of the Board. A third statement, the Statement of Cash Flows, identifies how cash and other financial assets (that can readily be converted to cash) flow in and out of the organization. The Statement of Cash Flows, when taken together with the Statement of Net Assets and Statement of Revenues, Expenses, and Changes in Net Assets, provides the reader a complete "snapshot" of the financial condition of the Board as of June 30, 2004.

FINANCIAL ANALYSIS

The following table reflects the condensed Statement of Net Assets:

Table I
Summary of Statement of Net Assets
Comparison

	June 30, 2003	June 30, 2004	Change	Percent
Cash and cash equivalents	\$ 2,187,893	\$ 2,263,617	\$ 75,724	3%
Investments	2,349,442	3,553,842	1,204,400	51%
Accounts receivable	669,083	752,978	83,895	13%
Other assets	611,413	51,471	(559,942)	(92%)
Capital assets	<u>371,042</u>	<u>655,247</u>	<u>284,205</u>	<u>77%</u>
Total assets	6,188,873	7,277,155	1,088,282	18%
Accounts payable	472,840	587,082	114,242	24%
Other liabilities	<u>1,724,754</u>	<u>1,730,165</u>	<u>5,411</u>	<u>0.3%</u>
Total liabilities	2,197,594	2,317,247	119,653	5%
Net assets:				
Invested in capital assets	371,042	655,247	284,205	77%
Restricted	955,652	376,847	(578,805)	(100%)
Unrestricted	<u>2,664,585</u>	<u>3,927,814</u>	<u>1,263,229</u>	<u>47%</u>
Total net assets	\$ 3,991,279	\$ 4,959,908	\$ 968,629	24%

The value of cash and cash equivalents increased 3% or \$75,724. For the same period, investments increased \$1,204,400 or 51%. In FY 04, the Board reclassified restricted funds of \$568,850 to an unrestricted classification. This administrative reclassification contributed largely to the 92% decrease in other assets and contributed in part to the increases in both the cash equivalent and investment accounts. The emphasis on placing liquid funds in the investment account, where practical, is consistent with the Board's cash management policy to maximize interest revenue on idle funds. The Board's strategic plan has identified several uses of these funds to be employed over a five year period to continue upgrades to the Board's information system infrastructure and the purchase of a behavioral healthcare information system.

Capital assets are comprised of Board owned copiers, certain computer equipment and vehicles. The Board's capitalization threshold is \$2,000. The value of the Board's capital assets increased substantially by 77% or \$284,205 in FY 04. In accordance with the Board's strategic plan, a vehicle replacement program was implemented in FY 04 which improved the average life of the fleet. Sixteen vehicles were replaced and some new vehicles were added. In addition to the capital equipment purchased, non-capital expenditures of \$206,564 were completed. The non-capital expenditures were to support continued computer systems and infrastructure upgrades in preparation for a new behavioral healthcare information system. Continued emphasis on life-cycle costing and the capital improvement plan will generate continued capital outlay in future years.

Year-end combined client and contract accounts receivable increased 13% or \$83,895 in FY 04. This increase was due largely to additional billings to insurance providers for services provided directly to clients.

Accounts payable increased 24% or \$114,242 in FY 04 due largely to several invoices for vehicles that were received before year-end and paid after July 1. Other liabilities remained near constant for the year.

As of the close of FY 04, the Board reported net assets of \$4,959,908, an increase of \$968,629 in comparison with the prior year. The increase was due to increased revenue. Net assets included \$655,247 invested in capital equipment and \$376,847 temporarily restricted federal special project carry-over funds. The Board's unrestricted net assets – the part of the net assets that can be used to finance day-to-day operations were \$3.93 million – and increase of 1.26 million or 47% over FY 03.

STATEMENT OF ACTIVITIES

Table 2
Statement of Revenues, Expenses, and Changes in Net Assets
Comparison

	Year Ended June 30, 2003	Year Ended June 30, 2004	Change	Percent
Revenues				
Program revenues:				
Fees revenue	\$ 4,547,403	\$ 4,732,701	\$ 185,298	4%
Commonwealth of Virginia	7,305,243	7,442,157	136,914	2%
Federal awards	2,789,870	2,926,030	136,160	5%
Contract revenue	613,015	676,393	63,378	10%
General revenues:				
City of Norfolk	2,002,500	2,155,000	152,500	8%
Miscellaneous income	264,193	-	(264,193)	(100%)
Other gain/loss	(12,071)	(52,114)	(40,043)	332%
Investment income	117,898	155,666	37,768	32%
Total revenues	17,628,051	18,035,833	407,782	2%
Expenses				
Salaries and benefits	12,114,404	12,318,953	204,549	2%
Operating costs	445,190	469,421	24,231	5%
Services	3,727,944	3,809,575	81,631	2%
Equipment	104,127	206,564	102,437	98%
Bad debt expense	10,278	2,014	(8,264)	(80%)
Depreciation	114,525	107,803	(6,722)	(6%)
General relief to clients	106,116	152,874	46,758	44%
Total expenses	16,622,584	17,067,204	444,620	3%
Change in Net Assets	\$ 1,005,467	\$ 968,629	\$ (36,838)	(4%)

REVENUES

For the fiscal year ended June 30, 2004, revenue from all sources totaled \$18.0 million. This represents an increase of 2% over FY 03 total revenue.

Sources of fee revenue for services provided to clients are direct billings to clients, Medicaid and other government insurance programs, and private insurance companies. Revenue associated with services provided for other agencies are combined with other miscellaneous revenue and reflected as contract revenue. The revenue from fees remained relatively flat with an increase of 4% or \$185,298 in FY 04. This increase is largely attributable to new service billings for infant case management. Continuously increasing fee and other service revenue remains a top priority for management.

Operating contract revenue increased by 10% or \$63,378 in FY 04. This increase is exclusive of a substantial non-service based one time FY 03 appropriation that did not repeat in FY 04. The increase in contract revenue in FY 04 was primarily due to an expansion of the Student Assistance program for Norfolk Public Schools and increased funding for the Clinical Trials Program from Virginia Commonwealth University.

State and federal revenue sources both remained somewhat flat in FY 04 with a combined increase of just 3% or \$273,074 over FY 03. This increase was primarily contributable to one-time state and federal funding of targeted initiatives and partial support for a cost of living allowance.

Revenue from the City of Norfolk increased 8% or 152,500 in FY 04 to provide additional support for services offered by the Board to citizens of Norfolk.

Investment revenue increased 32% or \$37,768 in FY 04 due to higher than anticipated earnings on long term investments.

EXPENSES

Overall expenses increased only slightly in FY 04 by 3% or \$444,620 from the prior year. At the account level, two primary contributors to this increase can be identified. First, salary and benefits increased from the prior year due primarily to planned annual salary adjustments including COLA and annual increments. Equipment expense doubled in FY 04 over the prior year with a 98% or \$102,437 increase. This increase for non-capital equipment provided additional computer workstations and user software required to improve the information system infrastructure in preparation of a new Behavioral Healthcare Information and Electronic Medical Records system. As detailed in the fixed assets discussion, this non-capital increase was in addition to the increase in fixed assets.

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BUDGETARY HIGHLIGHTS

Table 3
Budget to Actual Comparison (Cash Basis)
Fiscal Year Ended June 30, 2004

	Initial Budget	Revised Budget	Actual	Variance	Diff.
Revenues:					
Fees	\$ 4,981,472	\$ 4,659,341	\$ 4,684,244	\$ 24,903	1%
Contracts	729,856	617,825	750,893	133,068	22%
State	7,331,102	7,378,307	7,443,957	65,650	1%
Federal	3,007,646	2,933,176	2,834,364	(98,812)	(3%)
Miscellaneous	-	-	215	215	-
City	2,155,000	2,155,000	2,155,000	-	-
Deferred	172,291	364,510	364,510	-	-
Total revenue	18,377,367	18,108,159	18,233,183	125,024	1%
Expenses:					
Personal services	13,386,334	13,006,704	12,317,649	(689,055)	(5%)
Materials & supplies	514,571	409,171	469,441	60,270	15%
Operating & services	4,200,682	3,906,524	3,701,589	(204,935)	(5%)
Equipment & software	128,280	638,260	602,689	(35,571)	(6%)
General relief (client)	147,500	147,500	152,874	5,374	4%
Total expense	\$ 18,377,367	\$ 18,108,159	\$ 17,244,242	(863,917)	(5%)
Difference:	\$ -	\$ -	\$ 988,941	\$ 988,941	

Based solely on cash collections received prior to June 30, total revenue (including deferred revenue from prior years) exceeded budgeted revenue by 1% or \$125,024. Total expense was lower than budgeted expense by 4% or \$863,917. Taken together, the revenue increase and expense reduction generated a gain of \$988,941 for FY 04 on a cash basis. Both revenue and expenditure budgets were revised mid-year to reflect changes in anticipated program revenue and to adjust for salary savings due to employee turnover.

A budget to actual comparison of revenue demonstrates that most revenue targets were met based on the revised mid-year budget. Contract revenue exceeded expectations by 21% or \$133,068 on a cash basis due to additional FY 04 collections from the Clinical Trials, and Empowerment 2010 and Family Works programs.

Generally, cash expenditures were lower than budgeted. A major factor was a higher than expected vacancy rate and difficulty in filling clinical and other specialized positions. Realized payroll expense was 5% or \$689,055 below expectations. This vacancy rate made up 80% of the budgetary expenditure savings in FY 04. The saving in personal services and other categories was offset by a small over-expenditure in materials and supplies of 14% or \$60,270. At the line item level, the increase in materials and supplies is largely attributable to an increase in office supply expenditures. Taken together, expenditures were 4% or \$863,917 under budget.

CAPITAL ASSETS

Table 4
Change in Capital Assets

	Balance June 30, 2003	Additions	Deletions	Balance June 30, 2004
Capital assets:				
Leasehold improvements	\$ 144,603	\$ -	\$ -	\$ 144,603
Equipment	467,385	63,313	82,894	447,804
Vehicles	<u>802,138</u>	<u>332,812</u>	<u>254,441</u>	<u>880,509</u>
Totals	1,414,126	396,125	337,335	1,472,916
Less:				
Accumulated Depreciation				
Leasehold improvements	28,050	9,641	-	37,691
Equipment	338,804	42,666	78,777	302,693
Vehicles	<u>676,230</u>	<u>55,496</u>	<u>254,441</u>	<u>477,285</u>
Totals	<u>1,043,084</u>	\$ 107,803	\$ 333,218	<u>817,669</u>
Capital assets, net	\$ 371,042			\$ 655,247

During fiscal year ending June 30, 2004, sixteen aged vehicles were replaced with new vehicles more suited to current demographics and emerging transportation needs. In addition, modular furniture and network equipment was purchased to upgrade the facility and information system infrastructures. In FY 04, capital assets net of accumulated depreciation increased 76% or \$284,205. The planned purchase of a Behavioral Healthcare Information System in FY 05-06 will exceed the FY 04 increase.

ECONOMIC FACTORS

Although FY 04 income from state, federal, and local sources remained flat or increased slightly in FY 04, continued level funding in FY 05 or subsequent years cannot be guaranteed. The State has embarked on several initiatives beginning in FY 04 designed to transfer care of state facility clients to the community. Collectively, these programs are called "Reinvestment". The Norfolk CSB strongly supports these initiatives which provide the least restrictive care to clients in need of services. These plans require the local Community Service Boards to coordinate care for this client population after they re-enter the community. While regional funding is available for this initiative, it remains unclear when, if, and how much of that funding will be appropriated to the Norfolk CSB to fund related ongoing expenditures. The cash position of the Norfolk CSB is sufficient to provide the reserves that may be required to support operations during this transition period.

STRATEGIC PLAN

In FY 04, at the direction of the Board of Directors and with the input from staff, the community and clients, the Norfolk CSB adopted a comprehensive strategic plan. The strategic plan coordinates internal and external resources to expand and enhance a variety of services, improve revenue and operations, generate efficiencies through process automation, and execute site and facilities development plans. A copy of the strategic plan can be obtained by contacting the Board's financial officer.

CONTACTING THE BOARD'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, clients, and taxpayers with a general overview of the Board's finances and to demonstrate the Board's accountability for the money it receives. Questions concerning this report or requests for additional financial information should be made directly to Suzanne Williams, Financial Officer, 248 West Bute Street, Norfolk, VA 23510, telephone (757) 441-5300.

NORFOLK COMMUNITY SERVICES BOARD

STATEMENT OF NET ASSETS

JUNE 30, 2004

ASSETS

Current Assets

Cash and cash equivalents	\$ 2,263,617
Investments	3,553,842
Accounts receivable:	
Medicaid and clients, net of allowance for doubtful accounts of \$58,428	475,608
Grants and contracts	277,370
Prepaid expenses	49,315
Total Current Assets	<u>6,619,752</u>

Property and equipment - less accumulated depreciation

655,247

Other Assets

Cash held for escrow - restricted	<u>2,156</u>
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Total Assets \$ 7,277,155

LIABILITIES

Current Liabilities

Accounts payable	\$ 587,082
Accrued payroll and related taxes	311,253
Accrued pension contribution	729,436
Accrued vacation and related taxes	58,745
Deferred revenue	1,070
Other liabilities	23,993
Total Current Liabilities	<u>1,711,579</u>

Noncurrent Liabilities

Due to escrow	2,156
Accrued vacation and related taxes	603,512
Total Noncurrent Liabilities	<u>605,668</u>

Total Liabilities 2,317,247

NET ASSETS

Invested in capital assets	655,247
Restricted for other uses	376,847
Unrestricted	3,927,814
Total Net Assets	\$ <u><u>4,959,908</u></u>

See accompanying notes.

NORFOLK COMMUNITY SERVICES BOARD

**STATEMENT OF REVENUES, EXPENSES
AND CHANGES IN NET ASSETS
YEAR ENDED JUNE 30, 2004**

REVENUES

Net client fees and insurance reimbursements	\$ 4,732,701
Appropriations from the Commonwealth of Virginia	7,442,157
Appropriations from the Federal Government	2,926,030
Other	<u>676,393</u>
TOTAL REVENUES	<u>15,777,281</u>

EXPENSES

Personnel	12,318,953
Operating costs	469,421
Services	3,809,575
Equipment	206,564
Bad debt expense	2,014
Depreciation	107,803
General relief	<u>152,874</u>
TOTAL EXPENSES	<u>17,067,204</u>

OPERATING LOSS	<u>(1,289,923)</u>
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NON-OPERATING INCOME (EXPENSES)

Investment income	154,873
Interest income	793
Loss on sale of assets	(52,114)
Appropriations from local governments	<u>2,155,000</u>
	<u>2,258,552</u>

CHANGE IN NET ASSETS	968,629
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NET ASSETS - BEGINNING OF YEAR	<u>3,991,279</u>
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NET ASSETS - END OF YEAR	<u><u>\$ 4,959,908</u></u>
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See accompanying notes.

NORFOLK COMMUNITY SERVICES BOARD

STATEMENT OF CASH FLOWS YEAR ENDED JUNE 30, 2004

Cash Flows From Operating Activities	
Cash received from clients	\$ 4,663,688
Cash received from contractors	661,511
Cash paid to employees	(12,314,233)
Cash paid to suppliers for goods and services	(4,524,192)
State revenue	7,442,157
Federal revenue	2,926,030
Cash paid to other sources	(5,377)
Net cash used for operating activities	<u>(1,150,416)</u>
Cash Flows From Non-Capital Financing Activities:	
Appropriations from local government	2,155,000
Non-operating miscellaneous income	568,850
Net cash provided by non-capital financing activities	<u>2,723,850</u>
Cash Flows From Capital and Related Financing Activities:	
Purchase of property and equipment	(396,125)
Net cash used by capital financing activities	<u>(396,125)</u>
Cash Flows From Investing Activities:	
Receipts of interest and dividends	132,016
Return on Principal	22,857
Proceeds from sale of investments	1,064,827
Payments for investments	(2,321,285)
Net cash used by investing activities	<u>(1,101,585)</u>
Net increase in cash and cash equivalents	75,724
Cash and Cash Equivalents - unrestricted:	
Beginning	<u>2,187,893</u>
Ending	\$ <u><u>2,263,617</u></u>
Supplemental Disclosures of Cash Flow Information	
Noncash transaction:	
Net increase in fair value of investments	\$ (52,114)
Cash held for trustees	\$ 2,156
Cash due to trustees	<u>(2,156)</u>
	\$ <u><u>-</u></u>

See accompanying notes.

NORFOLK COMMUNITY SERVICES BOARD

STATEMENTS OF CASH FLOWS YEAR ENDED JUNE 30, 2004

Reconciliation of Operating Income to Net Cash

Used by Operating Activities:

Operating loss \$ (1,289,923)

Adjustments to reconcile net income to net cash

provided by operating activities:

Depreciation and amortization 107,803

Decrease in provision for bad debts 4,855

Changes in operating assets and liabilities:

(Increase) decrease in:

Accounts receivable (69,013)

Grants and contracts (14,882)

Client loans 1,709

Prepaid expenses (10,112)

Increase (decrease) in:

Accounts payable and accrued expenses 188,978

Deferred revenue 186

Due to other governments (73,433)

Other liabilities 3,416

Net cash used by operating activities \$ (1,150,416)

See accompanying notes.

NORFOLK COMMUNITY SERVICES BOARD

NOTES TO FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2004

NOTE 1 – REPORTING ENTITY

The Norfolk Community Services Board (CSB) was created in 1969 by a resolution of the City of Norfolk. It is empowered by Chapters 10 and 11 of the *Code of Virginia* to provide mental health, mental retardation, and substance abuse services to residents of the City of Norfolk (City). The CSB is established under mandate of the State and follows the City rules and regulations for its financial, personnel management, and purchasing activities. The CSB carries out its roles and responsibilities under the Operating Board type of structure as outlined in the *Code of Virginia*. The CSB uses the City as its fiscal agent to provide administrative support in these areas. For reporting purposes at the City level, the operations of the CSB are included as a discretely presented component unit of the City. The CSB Board of Directors is composed of 15 members appointed by City Council.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

The financial statements of Norfolk Community Services Board have been prepared on the accrual basis of accounting as required by generally accepted accounting principles for enterprise funds under GASB 34.

Basis of Accounting

The financial statements are presented on the accrual basis of accounting, wherein revenues are recognized when earned and expenses are recognized when incurred. In accordance with GASB Statement No. 20, management has elected not to apply FASB pronouncements issued after November 30, 1989.

Budgets and Budgetary Accounting

The CSB's annual budget is a management tool that assists users in analyzing financial activity for its fiscal year ending June 30. The CSB's largest funding source is from the State of Virginia. Federal, local, contract and fee-for-service payments comprise the remaining major revenue sources. Some federal programs have periods that may or may not coincide with the CSB's fiscal year. These appropriations normally are for a twelve-month period; however, they can be awarded for periods shorter or longer than twelve months.

Because of the CSB's dependence on uncertain fee revenues and other federal, state, and local budgetary decisions, revenue estimates are based upon the best available information as to potential sources of funding.

NORFOLK COMMUNITY SERVICES BOARD

NOTES TO FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2004

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Budgets and Budgetary Accounting (continued)

The resultant annual budget is subject to change within the fiscal year due to:

- The extent to which fee revenues are realized;
- Increases/Decreases in actual appropriation from those estimated;
- Unanticipated appropriations not included in the budget;
- Expected appropriations that fail to materialize; and
- Reductions in expenditures due to savings and accruals from staff turnover and cost saving measures.

The Board of Directors formally approves the annual budget and any major budget revisions.

Fiscal Agent

The City of Norfolk serves as the CSB's fiscal agent. All state and federal revenue is received directly by the City. Client paid fee revenue is initially deposited into a fee collection account then transferred to the City by the end of the following month.

Cash and Cash Equivalents

Cash and cash equivalents are stated at cost, which approximates market. Cash and cash equivalents include cash on hand, checking and savings accounts, and short-term, highly liquid investments with original maturities of three months or less.

Cash on Deposit with the City of Norfolk, Virginia

The CSB maintains its operating cash with the City, which administers the cash investments for all City agencies. All cash held by the City is fully insured or collateralized. Interest earnings are allocated to the CSB by the City on pooled funds.

Investment

The CSB reports investments at fair value. Capital gains include both realized and unrealized components.

NORFOLK COMMUNITY SERVICES BOARD

NOTES TO FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2004

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Allowance for Doubtful Accounts

The CSB creates a full allowance for client fees that are over 60 days past due and a partial allowance for current client receivables. For third party payors, the CSB maintains an allowance for receivables appropriate for each payor's reimbursement guidelines.

Capital Assets - Property and Equipment

Property and equipment are stated at cost. The threshold for asset capitalization is \$2,000. Assets are depreciated over their estimated useful lives using the straight-line method of depreciation. Effective July 1, 2003, the estimated useful lives for newly acquired property and equipment are as follows:

	<u>Years</u>
Leasehold improvements	15
Office Furniture	5
Vehicles	7

Operating and Non-operating Revenues and Expenses

The CSB reports as operating revenues net client fees and insurance reimbursements, appropriations, reimbursements and grants from the Commonwealth of Virginia and the Federal government, and other miscellaneous operating revenues. Nonoperating revenues consist primarily of investment income and the local appropriation from the City of Norfolk. The CSB reports as operating expenses those costs such as salaries for personnel other operating costs, contractual services for outside contractors and depreciation expense.

Taxes

As a political subdivision of the Commonwealth of Virginia, the CSB is exempt from sales and meal taxes and federal and state income taxes. The CSB is not exempt from hotel and real estate taxes.

Estimates

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenditures and disclosure of contingent assets and liabilities for the reported periods. Actual results could differ from those estimates and assumptions.

NORFOLK COMMUNITY SERVICES BOARD

NOTES TO FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2004

NOTE 3 – CASH AND INVESTMENTS

Deposits

The CSB's bank deposits are covered by Federal Depository Insurance Corporation (FDIC) or collateralized in accordance with the Virginia Security for Public Deposits Act. Under the Act, banks holding public deposits in excess of the amounts insured by FDIC must pledge collateral in the amount of 50% of the excess deposits to a collateral pool in the name of the State Treasury Board. Savings and loans institutions are required to collateralize 100% of the deposits in excess of the FDIC limits. The State Treasury Board is responsible for monitoring compliance with the collateralization and reporting requirements of the Act and for notifying local governments of compliance by banks and savings and loans. Cash deposits of the CSB are managed by the City of Norfolk.

Investments

Statutes authorize the CSB to invest in obligations of the United States or agencies thereof, obligations of the Commonwealth of Virginia or political subdivisions thereof, obligations of the International Bank for Reconstruction and Development (World Bank) and Asian Development Bank, the African Development Bank, commercial paper rated A-1 by Standard and Poor's Corporation or P-1 by Moody's Commercial Paper Record, banker's acceptances, repurchase agreements, and the State Treasurer's Local Government Investment Pool (LGIP).

The CSB's investments are categorized below to give an indication of the level of risk assumed by the entity at year-end. Category 1 includes investments that are insured or registered or for which securities are held by the CSB or its safekeeping agent in the CSB's name. Category 2 includes uninsured or unregistered investments for which the securities are held by the broker's or dealer's trust department or safekeeping agent in the CSB's name. Category 3 includes uninsured and unregistered investments for which the securities are held by the broker or dealer, or by its trust department or safekeeping agent, but not in the CSB's name.

NORFOLK COMMUNITY SERVICES BOARD

NOTES TO FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2004

NOTE 3 - CASH AND INVESTMENTS (continued)

Investments (continued)

	Category			Carrying Value	Market Value
	1	2	3		
Certificate of deposit	\$ -	\$ 354,393	\$ -	\$ 354,393	\$ 354,393
Commercial bonds	-	1,250,000	-	1,250,000	1,250,000
Mutual funds	-	45,744	-	45,744	45,744
U.S. Govt. securities	-	1,903,705	-	1,903,705	1,903,705
Total investments	\$ -	\$3,553,842	\$ -	\$3,553,842	\$3,553,842

Reconciliation to cash, cash equivalents, and investments:

Cash and cash equivalents	\$2,263,617
Investments	<u>3,553,842</u>
Total cash and investments	\$5,817,459

NOTE 4 – FIXED ASSETS

Description	Balance July 1, 2003	Additions	Deletions	Balance June 30, 2004
Leasehold improvements	\$ 144,603	\$ -	\$ -	\$ 144,603
Equipment	467,385	63,313	82,894	447,804
Vehicles	<u>802,138</u>	<u>332,812</u>	<u>254,441</u>	<u>880,509</u>
Total	1,414,126	396,125	337,335	1,472,916
Accumulated depreciation:				
Leasehold improvements	28,050	9,641	-	37,691
Equipment	338,804	42,666	78,777	302,693
Vehicles	<u>676,230</u>	<u>55,496</u>	<u>254,441</u>	<u>477,285</u>
Total	<u>1,043,084</u>	\$ 107,803	\$333,218	<u>817,669</u>
Capital assets, net	<u>\$ 371,042</u>			<u>\$ 655,247</u>

NORFOLK COMMUNITY SERVICES BOARD

NOTES TO FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2004

NOTE 5 - COMPENSATED ABSENCES

Norfolk Community Services Board Employees are entitled to certain compensated absences based on their accrued leave balance. Upon termination, employees may be paid up to a maximum of 352 hour of vacation (leave) at their normal pay rate. Upon termination, employees are not paid for their accumulated sick leave. As of June 30, 2004, the CSB accrued \$662,257 for compensated absences. This amount is reflected in the balance sheet under current liabilities – Accrued Leave (Current) of \$58,745 and long-term liabilities of \$603,512.

Employees who retire from service and meet certain eligibility requirements are entitled, in addition to their defined contribution pension, a portion of their sick-leave balance. As few employees are at retirement age, the effect of this expense is considered immaterial and has not been accrued.

NOTE 6 - DEFINED CONTRIBUTION PENSION PLAN

Norfolk Community Services Board contributes to a defined contribution plan administered by Met Life, Inc. A defined contribution plan provides pension benefits in return for services rendered, provides an individual account for each participant, and specifies how contributions to the individual's account are to be determined instead of specifying the amount of the benefits the individual is to receive. Under a defined contribution pension plan, the benefits a participant will receive will depend solely on the amount contributed to the participant's account and the returns earned on investments, as selected by the participant, of those contributions.

As established by the plan, enrolled permanent, full-time employees of Norfolk Community Services Board and those part-time permanent employees accumulating more than 1,000 hours of service in the plan year are eligible to participate.

For the fiscal year ended June 30, 2004, Norfolk Community Services Board contributed 10% of the employees' gross earnings to the plan for each eligible employee. Eligible employees are enrolled in the plan after one year of service. Participating employees are vested at 100% after five years of service. Based on enrollment date, proportionate contributions are made for employees with partial plan year eligibility.

During the year ending June 30, 2004, Norfolk Community Services Board's defined benefit contribution was \$837,138. No forfeitures were applied to this contribution. The accrued liability associated with the fiscal year 2005 contribution is \$819,108 reduced by expected forfeitures of \$89,672 for a net accrual of \$729,436.

NORFOLK COMMUNITY SERVICES BOARD

NOTES TO FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2004

NOTE 7 - CONTINGENT LIABILITIES

Federal programs in which Norfolk Community Services Board participates were audited in accordance with the provisions of U.S. Office of Management and Budget Circular A-133, Audits of State and Local Governments and the Single Audit Act of 1996. Pursuant to these provisions all major programs and certain other programs were tested for compliance with all applicable grant requirements. While no matters of noncompliance were disclosed by audit, the Federal Government may subject grant programs to additional compliance testing, which may result in disallowed expenditures. In the opinion of management, any future disallowances of current grant program expenditures, if any, cannot be determined at this time.

NOTE 8 - RISK MANAGEMENT

Norfolk Community Services Board is exposed to various risks of loss related to: theft of, damage to, and destruction of assets; injuries to employees; general liability; automobile liability; crime and employee dishonesty; professional liability; and directors and officers' liability.

During fiscal year ended June 30, 2004, Norfolk Community Services Board was covered by these potential losses by commercial insurance carriers. In the case of board member liability, additional coverage is provided through the City of Norfolk's self-insurance program.

NOTE 9 - OPERATING LEASES

The Board leases offices and clinics under various lease agreements. Lease expense for the year ended June 30, 2004 was \$947,020. At June 30, 2004, the approximate annual operating lease commitments are as follows:

Year ending June 30,

2005	\$ 919,709
2006	\$ 943,164
2007	\$ 944,365
2008	\$ 684,635
2009	\$ 635,444

NORFOLK COMMUNITY SERVICES BOARD

NOTES TO FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2004

NOTE 10 - RESTRICTED ASSETS

The CSB segregates monies held on behalf of a client sponsored activity fund for which the CSB has a fiduciary responsibility to manage. At year end, these funds have not yet been totally expended for their intended purposes.

NOTE 11 – RESIDENTIAL OPTIONS, INC.

Residential Options, Inc. (ROI) is a not-for-profit organization exempt from income tax under Section 501 (c) 3 of the U.S. Internal Revenue Code. In accordance with the ROI charter, the ROI Board and the CSB's Board have one member in common. ROI owns property at which the Norfolk CSB provides mental health residential services for City residents. A letter of agreement between ROI and the CSB describes the relationship between the two entities. ROI is legally separate from the CSB and produces separate financial statements. The CSB has considered ROI a related organization for Fiscal Year ending June 30, 2004 per GASB Statement No 14 as amended by GASB Statement No. 39.

NORFOLK COMMUNITY SERVICES BOARD**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2004**

<u>Federal Grant</u>	<u>Federal CFDA No.</u>	<u>Federal Expenditures</u>
<u>Department of Health and Human Services</u>		
Passed-through Department of Mental Health, Mental Retardation, and Substance Abuse Services		
Projects for Assistance in Transition To Homeless (PATH)	93.150	\$ 58,763
Mental Health Data Infrastructure Grant	93.320	1,000
Mental Health Federal Block Grant	93.958	155,490
Substance Abuse Federal Block Grant	93.959	1,948,077
Transitional Aid to Needy Families TANF Via Social Services	93.575	140,000
Support for Early Intervention	93.575	50,514
<u>Department of Education</u>		
Passed-through Department of Mental Health, Mental Retardation, and Substance Abuse Services		
Infant Early Intervention (NICER)	84.181	458,228
<u>Department of HUD</u>		
Special Needs Assistance (SPC Support)	14.235	<u>113,958</u>
Total:		<u>\$2,926,030</u>

NORFOLK COMMUNITY SERVICES BOARD

**NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2004**

NOTE 1 – GENERAL

The above schedule of expenditures of federal awards presents the activity of all federal award programs of the Norfolk Community Services Board (CSB).

NOTE 2 – BASIS OF ACCOUNTING

The accompanying schedule of expenditures of federal awards is presented using the modified accrual basis of accounting.

NORFOLK COMMUNITY SERVICES BOARD

RECONCILIATION OF FEDERAL REVENUES PER AUDIT TO THE FOURTH QUARTER STATE REPORT YEAR ENDED JUNE 30, 2004

	<u>Federal Revenue</u>
Revenues – 4 th quarter state report summary dated October 1, 2004	\$3,198,874
Adjustments:	
Applied SA Retained Earnings	(290,504)
Applied MH Retained Earnings	(54,667)
Applied MR Retained Earnings (Part C)	(19,339)
HUD Supportive Services Billing Outstanding June 30, 2004	113,958
FY 03 Prevention carryover not spent	<u>(22,292)</u>
Total Federal Expenditures per audit report	<u>\$2,926,030</u>

NORFOLK COMMUNITY SERVICES BOARD

**RECONCILIATION OF REVENUES AND EXPENSES PER AUDIT TO THE FOURTH
QUARTER STATE REPORT (UNAUDITED)**

YEAR ENDED JUNE 30, 2004

	<u>Fees</u>	<u>State</u>	<u>Federal</u>	<u>City</u>	<u>Contract/Misc</u>	<u>Total</u>
Revenues						
Revenues - 4th quarter state report summary dated 9/3/03	\$4,684,244	\$7,440,832	\$ 2,670,793	\$2,155,000	\$ 1,282,314	\$18,233,183
Accruals and Adjustments:						
Change in accounts receivable	62,059					62,059
Reclassify Early Intervention revenue		3,125	528,081		(531,206)	-
Cash vs Accrual	(13,602)				(74,715)	(88,317)
FY 04 HUD billing outstanding			113,958			113,958
Change in Post Partum AR		(1,800)				(1,800)
Interest revenue					155,666	155,666
Unrealized gain/loss on investments					(52,114)	(52,114)
FY 03 C/O Prevention funds not spent			(22,292)			(22,292)
Deferred revenue			(364,510)			(364,510)
Total revenues per audit report	\$4,732,701	\$7,442,157	\$ 2,926,030	\$2,155,000	\$ 779,945	\$18,035,833
Difference	-	-	-	-	-	-

	<u>MH</u>	<u>MR</u>	<u>SA</u>	<u>Admin</u>	<u>Non-Op</u>	<u>Total</u>
Expenses						
Expenses - 4th quarter state report summary dated :	\$8,360,759	\$2,642,072	\$ 6,241,411	\$ -	\$ -	\$17,244,242
Accruals and Adjustments:						
Allocated Support Services	(1,318,019)	(355,953)	(806,500)	2,480,475		3
HUD Admin Support Applied to FY 05				113,958		113,958
Prepaid Expense				(10,111)		(10,111)
Bad Debt Expense				2,014		2,014
Depreciation Expense				9,640	102,279	111,919
Asset Capitalization	(188,592)	(70,604)	(60,678)	(76,250)		(396,125)
Pension Accruals				(73,433)		(73,433)
Vacation Accrual					54,469	54,469
Salary/FICA Accrual					20,267	20,267
Total expenses per audit report	\$6,854,148	\$2,215,515	\$ 5,374,233	\$2,446,293	\$ 177,015	\$17,067,204
Difference	-	-	-	-	-	-

NORFOLK COMMUNITY SERVICES BOARD
**STANDARD SCHEDULE OF INSURANCE (UNAUDITED)
YEAR ENDED JUNE 30, 2004**

Insurance Coverage	Ins. Co. / Agent/ Policy #	Policy Period	Limits of Liability		Ded.	Annual Premium
Automobile Liability Physical Damage	Co: Philadelphia Ag: Hilb, Rogal & Hamilton Pol. #PHPK058680	9/1/03 – 8/31/04	BI/PD Uninsured Motorist Medical Payments	\$ 1M \$ 1M \$ 5K	Comp \$500 Coll \$ 500	68,992
Boiler & Machinery	Co: Ag: N/A Pol. #:	N/a	Direct Damage Business Income Extra Expense	\$ \$ \$		
Crime	Co: Philadelphia Ag: Hilb, Rogal & Hamilton Pol. #: PHPK058680	9/1/03 – 8/31/04	Employee Dishonesty Forgery or Alteration Money & Securities	\$200K \$ 25K \$ 25K	\$2500	\$ 495
Electronic Data Processing	Co: Philadelphia Ag: Hilb, Rogal & Hamilton Pol. #: PHPK058680	9/1/03 – 8/31/04	Hardware Software Extra Expense	\$844,685 \$ 70K \$ 50K	\$1,000 \$ 500	\$3598
Garage Liability	Co: Ag: N/A Pol.	N/A	Garage Liability Garage keepers	\$ \$		
General Liability	Co: Scottsdale Ag: Hilb, Rogal & Hamilton Pol. #: OPS0036114	9/1/03 – 8/31/04	Aggregate Occurrence Medical	\$ 3M \$ 1M \$ 5K	\$1,000	\$84,840
Medical Malpractice	Co: Scottsdale Ag: Hilb, Rogal & Hamilton Pol. #: OPS0036114	9/1/03 – 8/31/04	Occurrence Aggregate	\$ 1.7M \$ 3.4M	N/A	Included In \$84,840
Public Officials Liability D & O	Co: Scottsdale Ag: Hilb, Rogal & Hamilton Pol. #: OPS0036114	9/1/03 – 8/31/04	Occurrence Aggregate	\$2M	\$1,000	Included In \$84,840
Property	Co: Philadelphia Ag: Hilb, Rogal & Hamilton Pol. #: PHPK058680	9/1/03- 8/31/04	Real Property Personal Property Business Income	\$1,026,500 \$175K	\$500	\$3031
Umbrella/Excess	Co: Scottsdale Ag: Hilb, Rogal & Hamilton Pol. #: OPS0036114	9/1/03 – 8/31/04	Occurrence Aggregate	\$ 1M \$ 1M	N/A	\$24,900
Workers Compensation	Co: American Interstate Ag: Hilb, Rogal & Hamilton Pol. #: RAWCVA121732003	9/1/03 – 8/31/04	Each Accident Policy Limit – Disease Each Employee- Disease	\$100K \$ 500K \$100K	N/A	\$94,725
Miscellaneous Coverage Flood	Co: Philadelphia Ag: Hilb, Rogal & Hamilton Pol. #PHPK058680	9/1/03 – 8/31/04		\$1,022,100	\$500	Included in \$3031 Total \$280,581

NORFOLK COMMUNITY SERVICES BOARD

SCHEDULE OF LEASE OBLIGATIONS (UNAUDITED)

YEAR ENDED JUNE 30, 2004

	SITE	TERMS	FY 05			FY 06			FY 07			FY 08			FY 09		
			Total Rent			Total Rent			Total Rent			Total Rent			Total Rent		
1	248 WEST BUTE STREET	\$13,156.00/month Escalation Clause: 3.25% beginning in Year #2 Lease Term: 9/24/97 to 9/23/07	196,449.66			202,834.27			209,426.39			53,202.90			-		
2	248 WEST BUTE ST PARKING (Rental of 28 Parking Spaces)	Escalation Clause: 3.25% Lease Term: 9/24/97 to 9/23/07	15,524.85			16,029.41			16,550.36			4,204.47			-		
3	ROLAND PARK CENTER	Escalation Clause: 5% in January of each year Lease Term: June 26, 1997 to July 26, 2007 Escalation currently suspended as of July 1, 2003 Current Lease Amount: 9884.92/month as of 7/1/2003	118,619.04			118,619.04			118,619.04			9,884.92			-		
4	TIDEWATER DRIVE CENTER 7460 and 7464 Tidewater Drive	Lease includes Janitorial and Maintenance Services Escalation Clause: 3% annual for base rent ; Janitorial serviced discontinued March 04 Maintenance services discontinued May 04 Lease Term: 6/1/01 to 5/31/16 Renovations added to lease: \$1,163.56/month No Escalation Clause TOTAL TIDEWATER DRIVE CENTER	326,710.50			336,511.81			346,607.17			357,005.38			367,715.55		
			13,962.72			13,962.72			13,962.72			13,962.72			13,962.72		
			\$340,673.22			\$350,474.53			\$360,569.89			\$370,968.10			381,678.27		
5	VIRGINIA BEACH BLVD CENTER	\$16,868.77/month Escalation Clause: 3% beginning in Year # 3 Lease Term: February 1, 2000 to January 31, 2015 Janitorial Svs to be added to lease: \$1,711.32/month - removed from lease 5/04 Escalation Clause: 3% every 3 years beg in Year 3 Lease Term: May 1, 2001 to end of lease Maintenance Svs to be added to lease: \$325.96/month Escalation Clause: 3% every 3 years beg in Year 3 Lease Term: May 1, 2001 to end of lease TOTAL VIRGINIA BEACH BLVD CENTER	225,467.91			232,231.94			239,198.90			246,374.87			253,766.11		
			\$225,467.91			\$232,231.94			\$239,198.90			\$246,374.87			\$253,766.11		
6	Various Locations	Five Leased Vehicles @ 382.91/mo/each 36 month lease beginning 7/1/2003	22,974.60			22,974.60											
		TOTAL LEASE OBLIGATIONS	\$919,709.28			\$943,163.79			\$944,364.58			\$684,635.27			\$635,444.38		

Norfolk Community Services Board 2005 Board of Trustees



Thomas S. Weaver

Joined the Board in October 1997 and became Board Chair on January 1, 2002. He is Chair of the Administration & Resources Committee.

He is a retired Naval officer and college professor.



Arthur S. Kaplan, M.D.

Joined the Board in August 1998 and became Vice Chair on January 1, 2004. Previously served as Secretary from January 1, 2001-December 31, 2003.

He is a retired physician.



Russell D. Evett, M.D.

Joined the Board in May 2000 and became Treasurer on January 1, 2002.

He is a retired physician.



Linda Horsey, Ed.D.

Joined the Board in July 2001 and became Secretary on January 1, 2004.

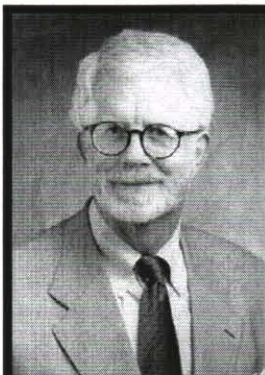
She is a counselor with The Therapy Center, a consultant to the Department of Social Services, and an adjunct professor at Norfolk State University.



Martha C. Smith

Joined the Board in April 1997 and was Secretary from January 1999-December 2000.

She is a long-time mental health advocate.



John J. O'Keefe, III

Joined the Board in April 1997 and is Chair of the Community & Governmental Relations Committee.

He is a partner with Outland, Gray, O'Keefe & Hubbard and has been active in civic affairs.



Roger L. Frost, C.P.A.

Joined the Board in October 1997 and was Treasurer from December 1998 through December 2001.

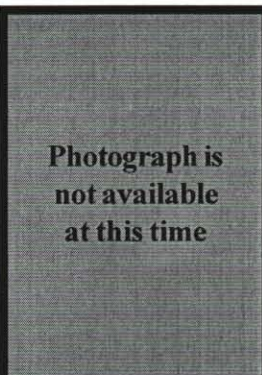
He is a retired partner with the accounting firm of Goodman and Company.



Timothy Coyle

Joined the Board in July 2001

He is an attorney with Crenshaw, Ware & Martin.



Photograph is not available at this time

Jacqueline Scott Sharpe

Joined the Board in October 2002. She is Volunteer/Victim Coordinator for the Department of Corrections, Community Corrections; founder and President of Victims Against Crime, Inc.; and founding member of Hampton Roads Coalition Against Crime.



Linda B. McCluney, Ph.D.

Joined the Board in February 2003. She previously served on the Board from 1987-1992, and was Board Chair from 1990-1992.

She is the Dean of Academic Affairs, Joint Forces Staff College.



Crystal Purnell-Dunn

Joined the Board in April 2003.

She is Office Administrator (Tidewater Office) for Virginia Premier Health Plan, Inc.

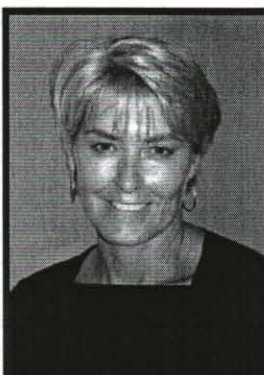
She is an advocate for mental health and substance abuse treatment.



Pamela Wright

Joined the Board in July 2004.

She is an active in the community and an advocate for persons with mental retardation, as well as those with mental health and substance addiction needs.



Dana Redding

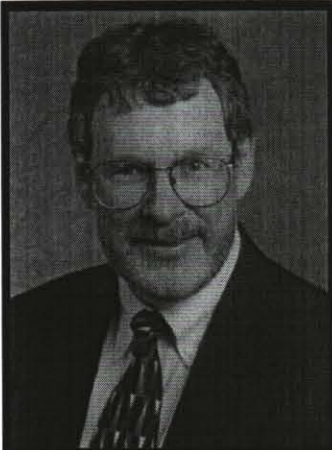
Joined the Board in July 2004.

She is owner of Topical Beauty landscaping service and is an active member of the community.

A maximum of fifteen members make up the Norfolk Community Services Board. Members are appointed by Norfolk City Council for a term of three years, and may serve three consecutive terms of office.

Board members meet monthly to set policy and direction of Board activities.

Norfolk Community Services Board **Management Team**



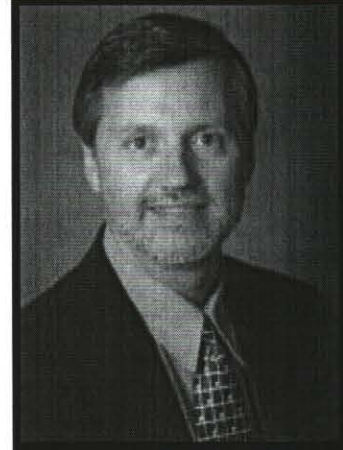
George W. Pratt, Ed.D.
Executive Director

Appointed Executive Director in July 1996. Dr. Pratt was Director of Mental Health Services from 1990 until 1996, and served in several other positions since joining the Board in 1986. From 1974-1986 he was a tenured Associate Professor of Counseling at Old Dominion University.



Brenda B. Wise
Director of Administration

Joined Norfolk CSB in September 1973 and was appointed Director of Administration in September 1994. Prior to that she held various management positions in Board Administration. She oversees the day-to-day administrative operations of the Board.



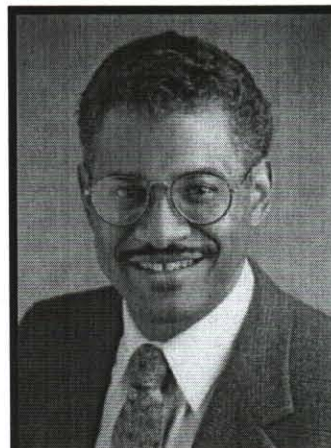
Martin W. Phillips, L.P.C.
*Director
Mental Health Services*

Appointed Director of Mental Health Services in September 1998, after having worked as Mental Health Director of Chesapeake CSB from 1993-1998. Previously worked for Norfolk CSB from 1988-1993 in increasingly responsible positions. Licensed Professional Counselor and Certified Clinical Mental Health Counselor.



Aileen L. Smith
*Director
Mental Retardation and Family Development Services*

Director of Mental Retardation and Family Development Services since November 2002; Director of Mental Retardation Services since August 1998. Obtained her Bachelor's Degree in Psychology in 1991 from Old Dominion University and her Master's Degree in Education in 1993.



Anthony D. Crisp
*Director
Substance Abuse Services*

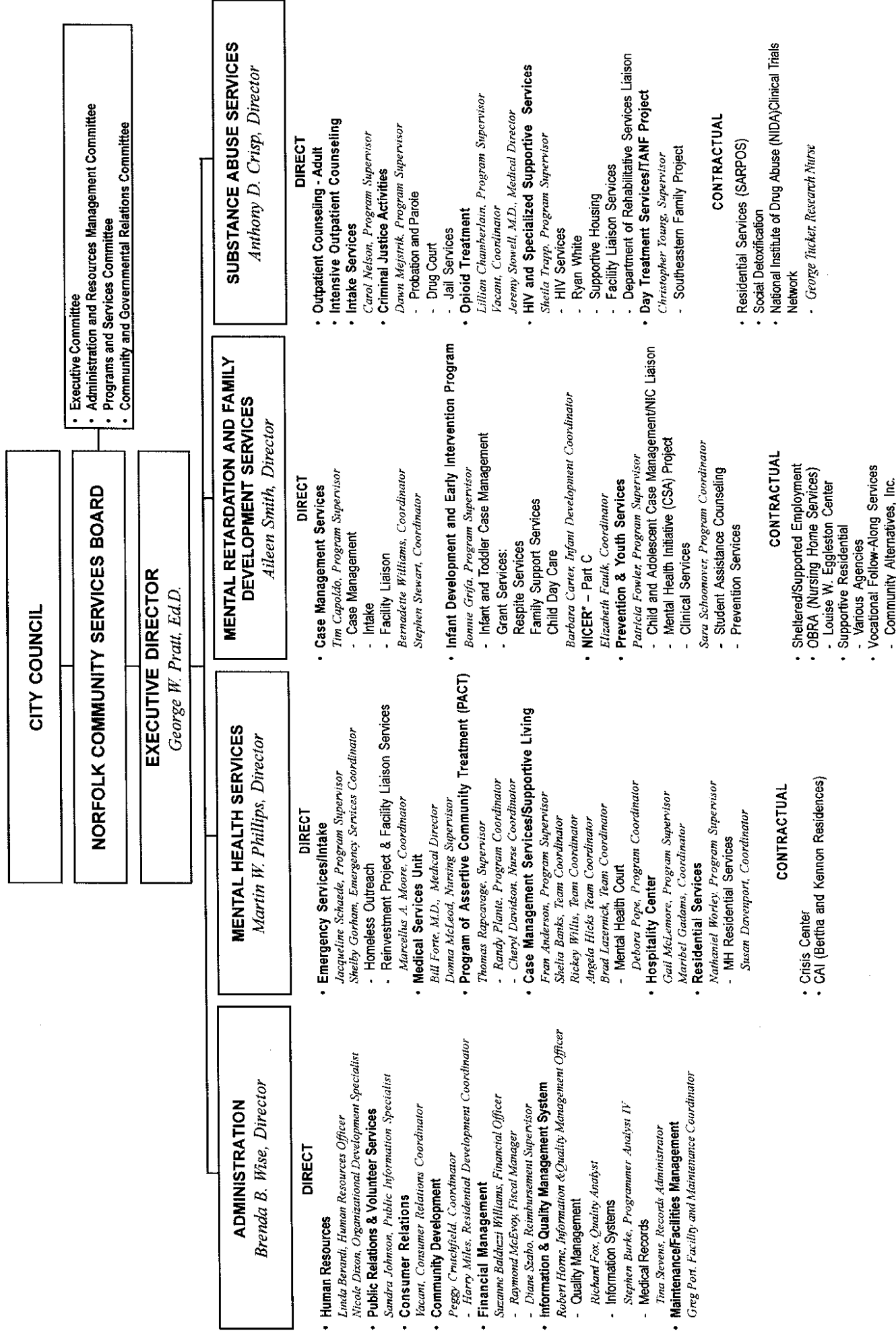
Joined Norfolk CSB in September 1988 as Director of Substance Abuse Services. From 1980-1988, he was Executive Director of Peninsula Drug Rehabilitation Services. He has a Master's Degree in Community/Clinical Psychology and a Master's Degree in Business Administration.

Management Team is composed of the Executive Director, the Director of Administration, and Disability Area Directors.

Management Team meets weekly and sets the direction for agency activities, discusses trends, assesses services and service needs, reviews fiscal issues, and focuses on accountability of the agency to various governmental bodies.

NORFOLK COMMUNITY SERVICES BOARD

FISCAL YEAR 2005



* Norfolk Interagency Committee for Early Response (interagency planning for comprehensive early intervention services for developmentally delayed and at risk infants)



**Independent Auditors' Report on Internal Control over Financial
Reporting and on Compliance and Other Matters
Based on an Audit of Financial Statements Performed in Accordance
with Government Auditing Standards**

To the Board of Trustees
Norfolk Community Services Board
Norfolk, Virginia

We have audited the financial statements of the Norfolk Community Services Board (the CSB) as of and for the year ended June 30, 2004, and have issued our report thereon dated September 10, 2004. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the CSB's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be a material weakness. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the CSB's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of the Board of Trustees, management of the CSB, federal awarding agencies, and pass-through entities and is not intended to be, and should not be, used by anyone other than these specified parties.

Cherry, Bekaert & Holland, L.L.P.

Virginia Beach, Virginia
September 10, 2004



**Independent Auditors' Report on Compliance with Requirements
Applicable to Each Major Program and Internal Control over Compliance
In Accordance with OMB Circular A-133**

The Board of Trustees
Norfolk Community Services Board
Norfolk, Virginia

Compliance

We have audited the compliance of the Norfolk Community Services Board (the CSB) with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major programs for the year ended June 30, 2004. The CSB's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the CSB's management. Our responsibility is to express an opinion on the CSB's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States' and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the CSB's compliance with those requirements and performing such other procedures, as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the CSB's compliance with those requirements.

In our opinion, the CSB complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2004.

Internal Control Over Compliance

Management of the CSB is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the CSB's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be a material weakness. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be a material weakness.

This report is intended solely for the information and use of the Board of Trustees, management of the CSB, federal awarding agencies, and pass-through entities and is not intended to be, and should not be, used by anyone other than these specified parties.

Cherry, Bekaert & Holland, L.L.P.

Virginia Beach, Virginia
September 10, 2004

Norfolk Community Services Board
Schedule Of Findings And Questioned Costs
Year Ended June 30, 2004

I. Summary of Audit Results

- a. An unqualified opinion was issued on the financial statements.
- b. There were no reportable conditions in internal control to disclose.
- c. The audit did not disclose any noncompliance material to the financial statements.
- d. There were no reportable conditions in internal control over major programs to disclose.
- e. An unqualified opinion was issued on compliance for major programs.
- f. The audit did not disclose any audit findings required to be reported.
- g. Major programs are:
 - i) CFDA #93.959 Substance Abuse Prevention and Treatment Block Grant
- h. The dollar threshold used to distinguish between Type A and Type B programs is \$300,000.
- i. The auditee did qualify as a low-risk auditee.

II. Findings – Financial Statement Audit

- a. None

III. Findings and Questioned Costs – Major Federal Award Programs Audit

- a. None